

# WSDOT Market Analysis

June 2008

This market analysis is based on a review of published information including the following sources: American Road and Transportation Builders Association (ARTBA); Asphalt Weekly Monitor (AWM); Associated General Contractors (AGC); Cement Americas; Engineering News Record (ENR); and the International Energy Agency (IEA).

- **Asphalt** prices increased dramatically, following crude oil prices. Asphalt prices may continue to increase slightly during the remainder of 2008, however, most of the increase has already occurred. Due to price volatility, asphalt marketers have cut the time they will guarantee their quotes.

*With the drastic changes in crude oil cost and subsequently the cost of asphalt, many marketers have changed contract terms. Previously, many marketers guaranteed stable pricing for 30- days out, but with the drastic upshots in costs, marketers are moving toward pricing based on a date-of-shipment basis. The volatility in the markets has made it harder for marketers simply to absorb any cost increases. Long-term pricing has also seen shorter terms as of late, with some marketers cutting back from two or three month pricing to 30 day pricing schedules, with others going to index related contacts. AWM, “ Vol. 20, No. 18,” Week of April 28- May 2, 2008.*

*“As spot prices for crude oil topped \$130 per barrel, an upturn in asphalt paving costs could not be far behind. ENR’s 20-city average price for asphalt paving oil increased another 2% this month, following increases of 3% in May and 1% in both April and March. The string of increases pushed prices 7% above a year ago. This follows year-to-year June price increases of 5% in 2007, 42% in 2006 and 10% in 2005. Prices for rapid-set asphalt emulsion increased even faster.” ENR, “Construction Economics,” June 2, 2008.*

- **Concrete** prices are expected to change very little as the industry copes with the weak housing market. Fuel prices will keep concrete prices increasing, but not more than the rate of general inflation.

*“The producer price index (PPI) for concrete products climbed 8% to 10% annually in 2004-2006 as all types of construction increased and U.S. cement capacity fell far short of demand. In 2007, concrete prices rose a more moderate 3.3% as residential demand slackened foreign supplies of cement - particularly from China - increased, and U.S. capacity began to expand. More capacity will come on line in 2008-2010, while residential demand will shrink further in 2008. Nonresidential demand will be mixed but will not grow as robustly as in 2004-2007. Although high fuel prices will push up production costs, ready-mixed and concrete product suppliers will have trouble fully passing through the increases; a 2% to 4% rise appears likely, according to AGC.” Cement Americas, “Recessive Trends,” March 2008.*

- **Fuel** price increases set off another round of construction cost inflation. Crude oil prices have been above \$100 a barrel most of the year and are expected to remain near \$130 a barrel for the rest of the year, keeping construction costs at high levels. Political tensions or unexpected refinery outages could push prices higher. Strong demand is keeping diesel fuel more expensive than gasoline, especially on the West coast.

*“A strong global demand for distillate fuel, coupled with high prices for crude oil, has sent the national average price of on-road diesel moving up 68% higher than the beginning of June last year, according to the Energy Information Administration. [...] The world is thirsty for diesel. Demand has been chugging along at a robust 3% a year over the past five years while gasoline remains growing at a moderate 1% annual rate, says Ron Planting, economist for the Washington, D.C.-based American Petroleum Institute.” ENR, “Demand Crowns Diesel, Not Gasoline, Cost King,” June 16, 2008 – Tudor Van Hampton and Melissa Traynor.*

*“Prices surged to almost \$140/bbl on 6 June following comments by an Israeli official that an attack on Iranian nuclear facilities was “inevitable” and came against a tight supply background with no clear sign of the usual second-quarter crude oil stockbuild. The rally wiped out three weeks of retrenchment as distillate premia eased and non-OECD price subsidies were cut.” IEA, “Oil Market Report,” June 10, 2008.*

**Lumber and plywood** prices, which have rapidly declined due to the housing market, have gone lower than what analysts say mills can absorb. Lumber prices should remain low

throughout the year. Mills are continuing shutdowns, and if they are successful in bringing supply in line with demand, lumber prices could increase slightly later in the year.

*“The depressed housing market keeps dragging down lumber prices. In 2005, when the market first started to falter, the average May mill price for framing lumber declined 15% from 2004’s peak, according to the lumber pricing specialist Random Lengths, Eugene, Ore. Prices slipped another 8% by May 2006 before plunging 19% last year. This year, yet another 3% was squeezed out of lumber prices. ENR’s 20-city average price for 2 X 4s is down 2% for the year, after falling 11% in 2007 and 10% in 2006.” ENR, “Construction Economics, June 16, 2008.*

- **Steel** prices will increase due to tighter global supply and increases in scrap prices. Prices have already increased more in the first six months of 2008 than they did in 2004 when prices for steel last spiked. The contracting industry is urging the use of steel escalation clauses to respond to current price volatility.

*Steel, which is mostly used in large structures and equipment manufacturing, has joined a rally in other metals this year. But unlike gains in copper or gold, an influx of financial investors into this high-flying commodity can't claim responsibility. That's because most of this semi-finished metal is bought and sold off the futures exchanges, with prices set via contract. Instead, analysts cite strong global demand, a drop in imports from overseas mills, continued appetite from parts of the construction industry, and a jump in input costs for driving prices higher. Market Watch, “Steel Prices Skirt Slowing Sectors To Hit Record,” April 23, 2008 – Laura Mandaro.*

*“Structural steel prices are moving at a higher rate and faster pace than the steel pricing crisis of 2004, says Neil Platt, the Detroit-based purchasing manager for Turner Corp. He says mills have raised prices \$280 a ton since last January, with April’s \$110 increase being “a killer.” ENR, “Inflation Making Big Push in 2008,” June 16, 2008 – Tim Grogan and Michael Moore.*

*“The high prices for scrap steel have led to thefts of steel from construction sites. The Chicago Tribune reported on June 2, “state police were monitoring areas of the Reagan Tollway at 9 p.m. Sunday because of recent reports of stolen materials from Tollway construction sites,” an assistant state’s attorney said. “Police said they [arrested two men whom they saw] loading a rental truck with 17 steel forms, worth an estimated*

*\$5,000...both men told police that they believed the materials were scrap.” AGC, “DataDIGest,” June 19, 2008.*

- **Highway Materials & Construction** price increases slowed in 2007. Throughout 2008, prices for these materials should increase more rapidly. Crude oil prices and global demand for construction materials will cause most of the increase.

*“The producer price index (PPI) for finished goods jumped 1.4% in May, seasonally adjusted, and 7.2% compared to May 2007, the Bureau of Labor Statistics (BLS) reported on Tuesday. The PPI for inputs to construction industries, comprising materials used in every type of construction plus items consumed during construction, such as diesel fuel, soared 2.6% and 8.4%, not seasonally adjusted. Among construction segments, the biggest leap was for highway and street construction, 4.0% and 15%. AGC, “The DataDIGest,” June 19, 2008.*

*“The cost of highway and street construction materials was up 12.2 percent in April 2008 compared to the same month last year. During the same time period, inflation, as measured by the consumer price index, was 3.9 percent. Over the last five years, between 2003 and 2008, the price of highway and street construction materials has risen 59 percent.” ARTBA, “Highway Construction Producer Prices,” May 2008.*